

1

How to Encourage Norwegian Gas Production?

1. There appears to be general agreement on the following:
  - o West European gas demand will increase enough by the mid- to late-1990s to require some large new import sources.
  - o The Soviets have ample resources to meet this potential demand and have strong incentives to do so.
  - o Norway probably has enough resources to cover most of the increase in European demand.
  - o Whether or not Norwegian gas development can be profitable is uncertain, depending heavily on the future price of oil, and partly on the seriousness of the technical problems in exploiting the gas.
  - o Low production costs and acceptance of low rates of return on investment make it possible for the Soviets to price their gas attractively even if prices should fall substantially.
2. West Europeans do not intend to make any large additional commitments for Soviet gas, and certainly not to build a new pipeline, for at least some time. They are unlikely to become interested in new Soviet gas projects until a clear upward trend in gas demand has become clear, and this will probably not happen for several years. Although they will assert that they have no intention of buying more Soviet gas, they are highly unlikely to make any firm long-term commitments not to do so. Indeed, although Ambassador Galbraith's assessment of the problem is excellent, I do not believe that his recommended solution--to seek an Allied commitment not to buy Soviet gas--is the way to go.
3. The West Europeans would be far more likely to make a commitment to buy Norwegian gas. In the near term, only a very general policy statement favoring Norwegian gas would be feasible because of the many uncertainties about technical problems, cost, and even the size of reserves of Norwegian gas. Even a general statement, however, might encourage the Norwegians to proceed with more intensive exploration, testing, and in some fields, the early stages of development.
4. In the meantime, beyond the general studies already planned, a detailed analysis of the technical, institutional, and political constraints on and incentives for development of Norwegian gas fields, should be undertaken. This analysis will require a great deal of additional information; it should consider, among other things:

SECRET

SECRET

- o A more precise assessment of the technical problems and possibilities for developing the Troll field--requiring accelerated exploration, testing, and engineering work.
- o More intensive exploration of the Northern fields so as to get a better fix on the size of reserves in that area.
- o Specific identification and assessment of Norwegian regulatory and tax instruments and their impact on North Sea gas exploration and development.
- o Exploration of the Norwegian interests in developing the Northern fields partly for security reasons--to help prevent the depopulation of the Northern-most provinces--and of Sweden's economic interest in purchasing Northern gas.
- o Further exploration of the impact of UK gas policies and regulations and how these might be changed to facilitate accelerated development of Norwegian gas.

5. In addition to detailed studies along the above lines, development of Norwegian gas could be aided by steps to make Norway a participant in some of the major Allied discussions of East-West economic issues and by measures designed to create a more unified West European gas market. If a European Community natural gas group were formed, and if the UK were willing to join it, it would become easier for the Europeans eventually to make firm commitments to purchase Norwegian gas. In this connection, construction of a gas pipeline connecting the UK with the Continent would be very helpful. The British are unwilling to be net exporters of gas (because they want to protect their reserves) but are willing to act as a corridor to the Continent for Norwegian gas.

6. The US should avoid a high profile in its efforts to encourage development of Norwegian gas. The Norwegians do not want to make it appear that they are accommodating US wishes; they have reasons of their own for wanting to develop their gas resources, including assuring an adequate export market, and developing the North. The other West Europeans probably will seek Norwegian gas for their own reasons as well. They do not want to be heavily dependent on Soviet gas and would prefer to buy from Norway instead. Moreover, they do not want to make the sort of commitment that would give Norway strong leverage on price terms.

SECRET

SECRET

## ROUTING AND RECORD SHEET

SUBJECT: (Optional)

NSC Meeting on Alternative Energies

FROM:

EXTENSION

NO.

NIO/Economics

DATE

6 December 1982

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

C/NIC

HRC

I agree with NIO/E's point that we try to get the Europeans as committed as possible to buying much more Norwegian gas in contrast with Galbraith's proposition that we try to get them to commit not to buy more Soviet gas. Desirable as the latter is, they won't do it but they might do the former.

HSK  
C/NIC

2.

3.

DCI

4.

5.

6.

7.

8.

9.

10.

11.

12.

13.

14.

15.

SECRET